NEXPOINT

# NexPoint Event Driven

## PERFORMANCE REVIEW

The NexPoint Event Driven Fund (the "Fund") (Class Z shares) returned 0.75% in the second quarter of 2024. Comparatively, the S&P Merger Arbitrage Index returned 0.50%, the S&P 500 increased 4.28%, and the Bloomberg Aggregate Bond Index increased 0.07% over the same period. YTD through June 30, 2024, the Fund returned 4.74%. Comparatively, the S&P Merger Arbitrage Index returned 1.33%, the S&P 500 returned 15.29%, and the Bloomberg Aggregate Bond Index returned -0.71% over the same period.

## MANAGER'S DISCUSSION

The second quarter demonstrated robust performance across equities, marked by numerous indices reaching new all-time highs. Since January, the S&P 500 has risen 15.29%, marking its second-strongest start to a year this century, supported by a resilient economy, improved corporate earnings, and strong demand for AI-linked companies. Despite signs of economic moderation, the rally is expected to continue amid Federal Reserve considerations to adjust rates down following one of the most impactful tightening campaigns in decades. A strong first-half performance historically suggests positive equity momentum for the remainder of the year, especially in a Presidential election year.

While inflation showed signs of cooling, so did the economy, underscoring the Fed's delicate task of controlling prices without triggering a downturn. Sustained equity growth hinges on the expectation that AI will rapidly evolve into a more substantial driver of broad economic expansion. While we foresee technology maintaining its pivotal role in long-term economic growth, we remain cautious about AI's sudden and widespread impact on growing corporate profits. Consequently, we anticipate a potential economic slowdown and a corresponding pullback in equities in the second half of 2024.

## M&A UPDATE

The momentum in North American and European M&A activity observed in the second half of 2023 continued into the first half of 2024. North American M&A volume exceeded a trillion dollars, according to reports from Citi and Dealogic, marking a 27% increase from the first half of 2023 and comparable to the second half of that year. At the current pace, North American M&A volume is poised to surpass $2 trillion, surpassing levels seen in 2023, 2022, and even 2020, though 2021 remains an outlier with over $3.5 trillion in deals. The surge in volume was driven by transactions exceeding $10 billion, which increased nearly 70% year-over-year and accounted for about two-thirds of the total volume in 2024. The technology, energy, and utilities sectors remained particularly active. Concurrently, private equity activity surged in the second quarter of 2024, marking the highest volume since the second quarter of 2022. In Europe, the M&A market also showed robust growth, with deal volume up 26% compared to 2023.

M&A bankers anticipate sustained momentum throughout the year. As previously noted, M&A activity declined in 2022 and 2023. Historically, such downturns are followed by increased deal activity driven by pent-up demand. Today, the economic outlook is considerably brighter compared to a year ago, when concerns centered on recession timing rather than the likelihood of a soft economic landing. CEOs and boards are increasingly confident in predicting lower interest rates, which has bolstered their willingness to pursue transactions. The high-yield leverage loan and bond markets remain accessible, facilitating more private equity transactions. With the S&P 500 near record highs, companies are leveraging stock to acquire other companies. Additionally, heightened levels of activist shareholder involvement are prompting strategic reviews and potential company sales. These factors collectively create a highly favorable environment for robust M&A activity in the upcoming quarters.

## REGULATORY UPDATE:

On the regulatory front, the Federal Trade Commission approved ExxonMobil's acquisition of Pioneer Natural Resources on May 2nd, and the deal closed on May 3rd, with one extremely odd condition. The condition, barring Pioneer's chief executive, Scott Sheffield, from serving on ExxonMobil's board, marked an unprecedented move by a federal regulatory agency, particularly without pursuing criminal charges against the individual. This action underscores FTC Chair Lina Khan's assertive approach to advancing her policy agenda. The agency cited allegations against Sheffield related to potential collusive activities impacting oil prices and concerns about anticompetitive behavior if he were to join the board. Sheffield has denied these allegations and requested the FTC to rescind the ban. His legal representatives argue that the FTC's restriction on his board appointment rights is arbitrary, capricious, exceeds lawful authority, and is not in the public interest. Sheffield's attorneys conclude, "The FTC plays a long-standing, well-established, and vital role in protecting American consumers and businesses from anticompetitive corporate behavior. But in straining to find a reason to criticize the merger of Exxon and Pioneer, the FTC stepped well beyond its proper mandate and unjustly smeared Mr. Sheffield."

On a less controversial note, the market was pleasantly surprised that Prysmian's announced acquisition of Encore Wire, a copper and aluminum industrial-grade wire and cables manufacturer, did not receive a second request from regulators. This development paved the way for the deal to close in July. As expected, Sterling Check's acquisition of First Advantage faced regulatory challenges. After refiling with the Department of Justice (DOJ) in April, they received a second request regarding their planned merger. Both companies, known for providing background screening and identity services, have a reputation as "serial" acquirers and are direct competitors.

In May, the FTC and the DOJ issued a Request for Information (RFI) from the public to identify serial acquisitions and roll-up strategies that have led to harmful market consolidation. The FTC and DOJ argue that serial acquisitions are problematic because companies can grow larger and potentially dominant through a series of smaller acquisitions. These smaller transactions often fall below the Hart-Scott-Rodino (HSR) thresholds, escaping pre-closing agency review and oversight. The FTC warns that through these smaller deals, firms can gain significant control over key products, services, and labor.

The focus on serial acquisitions is not new, but recent updates to the Merger Guidelines and HSR filing process underscore the administration's concern with these transactions. The revised guidelines now formally include the review of past transactions as part of the current deal evaluation. This approach may seem unusual, as it appears to allow agencies to assess the impact of past acquisitions retroactively. Traditionally, HSR reviews incorporate all holdings of the involved parties, including previous acquisitions. Therefore, it can be argued that the additional scrutiny of "serial" acquisitions might be redundant, as past deals are already considered in the overall review. This new approach may be seen as a way for regulators to address issues that might have been overlooked in the past. As with all the FTC's new theories of harm, we incorporate these factors into our due diligence review process and integrate the associated risks into our deal-scoring methodology to ensure a comprehensive evaluation of potential transaction risk.

SOFT CATALYST[1] UPDATE:
In the second quarter, soft catalyst activity in both equity and debt markets remained robust, offering the Fund a strong set of opportunities. Notably, thirty-eight rumored M&A deals were announced, of which five resulted in definitive agreements. Additionally, thirty-six activist campaigns were announced, eighteen strategic reviews were initiated, and four spinoffs were announced.

As the M&A environment continues to improve, especially with the anticipated rate cuts later in 2024, we expect a continued conversion of M&A rumors into definitive merger agreements and a shift from spinoffs to asset sales, primarily to private equity. There are numerous opportunities in software and consumer goods companies that went public in 2020-2021 that have materially underperformed and are targets for activists or a takeover. Furthermore, we have observed an increase in opportunities within the industrial segment that are trading at very attractive multiples. Activism campaigns have also risen in small and mid-cap companies, given the poor stock price performance over the past two years. Many investors are advocating for the unlocking of value through the monetization of business units or real estate holdings. We continue to monitor a basket of underperforming large-cap consumer discretionary sectors.

We remain optimistic about fixed income given the prospect of a Federal Reserve rate cut. While the equity capital markets are experiencing a seasonal slowdown impacting IPO volumes, the post-Labor Day period appears promising, with highly anticipated offerings from StubHub, Stripe, and Shein slated for the fall.

Key themes under our watch include the impact of recent environmental regulation changes following the Loper-Bright ruling, which overturned Chevron Deference, and sectors related to generative AI, although this trade is losing steam and has many similarities to the late-1990s dot-com bubble. Additionally, we are closely monitoring the potential effects of the 2024 U.S. presidential election on businesses domestically and internationally. Lastly, we recognize the valuation disparity between U.S.-listed and non-U.S.-listed stocks, with particular interest in London-listed stocks as potential acquisition targets.

The Fund maintains a high level of confidence in its strategy, which is designed to deliver investors low-volatility returns that are uncorrelated with broader fixed-income and equity markets. By prioritizing deals with appealing spreads, regulatory obstacles that can be managed effectively, and shorter expected closing timelines, the Fund strives to provide investors with a favorable risk-reward profile. We want to express our sincere appreciation to our shareholders for their ongoing support.

## Returns Since Strategy Inception January 20, 2022 (As of 06/30/2024)

| Share Class/Index | Incept. ** | YTD | 1-Year | 3-Year | 5-Year | 10-Year | ITD |
|---|---|---|---|---|---|---|---|
| Class A | 1.20.22 | 4.58 | 8.60 | -5.01 | 2.12 | 1.33 | 4.81 |
| Class A (w/load) | 1.20.22 | -1.16 | 2.62 | -6.78 | 0.97 | 0.76 | 2.46 |
| Class C | 1.20.22 | 4.27 | 7.89 | -5.61 | 1.47 | 0.70 | 4.14 |
| Class C (w/load) | 1.20.22 | 3.27 | 6.89 | -5.61 | 1.47 | 0.70 | 4.14 |
| Class Z[2] | 1.20.22 | 4.74 | 8.98 | -4.67 | 2.49 | 1.71 | 5.18 |

## Annualized Returns (%) as of 06/30/2024

| Share Class/Index | Incept.** | YTD | 1-Year | 3-Year | 5-Year | 10-Year | Since Incept. |
|---|---|---|---|---|---|---|---|
| Class A | 5.5.08 | 4.58 | 8.60 | -5.01 | 2.12 | 1.33 | 4.48 |
| Class A (w/load) | 5.5.08 | -1.16 | 2.62 | -6.78 | 0.97 | 0.76 | 4.11 |
| Class C | 5.5.08 | 4.27 | 7.89 | -5.61 | 1.47 | 0.70 | 3.85 |
| Class C (w/load) | 5.508 | 3.27 | 6.89 | -5.61 | 1.47 | 0.70 | 3.85 |
| Class Z | 5.5.08 | 4.74 | 8.98 | -4.67 | 2.49 | 1.71 | 3.85 |

**The performance data quoted here represents past performance and is no guarantee of future results. Investment returns and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For performance data current to the most recent month-end, please call 877-665-1287.**

[1]A hard catalyst is an event that has a defined outcome. A soft catalyst is an anticipated event.

[2]Only eligible investors may purchase Class Z Shares. Please refer to the prospectus for information and conditions.

*Returns are from January 20, 2022, to December, 2023. In 2022 the fund was renamed to NexPoint Event Driven. Prior to January 20, 2022, the Fund was managed pursuant to a different investment strategy.
**Prior to January 20, 2022, the Fund was managed pursuant to a different investment strategy. As a result of the difference in investment strategy, the performance information presented for periods prior to January 20, 2022 reflects management of the Fund consistent with investment strategies in effect during those periods and might have differed materially if the Fund's investments had been managed under its current investment strategies.

| | Gross | Net |
|---|---|---|
| Class A | 3.20 | 2.33 |
| Class C | 3.85 | 2.98 |
| Class Z | 2.85 | 1.98 |

## Fees & Expenses

The Net Expense Ratio excluding Investment Related Expenses is 1.50%. Investment Related expenses include acquired fund fees of 0.03% and dividend expense on short sales and other excluded expenses of 0.20%. Expenses stated as of the fund's most recent prospectus. The difference between gross and net expense ratios are due to contractual and/or voluntary waivers, if applicable. The Expense Cap will continue through at least October 31, 2024, and may not be terminated prior to this date without the action or consent of the Fund's Board of Trustees. Performance results reflect the contractual waivers and /or reimbursements of fund expenses by the Advisor. Absent this information, performance results would have been lower.The net expense ratio would be applicable to investors.

**SALES CHARGES**

Class A Max Sales Charge: 5.50%. Class C Contingent Deferred Sales Charge ("CDSC") is 1% within the first year from each purchase.
**The performance data quoted here represents past performance and is no guarantee of future results. Investment returns and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For performance data current to the most recent month-end, please call 877-665-1287.**

**Before investing in the Fund, you should carefully consider the Fund's investment objectives, risks, charges and expense. For a copy of a prospectus or summary prospectus, which contains this and other information, please visit our website at nexpoint.com or call 1-877-665-1287.Please read the fund prospectus carefully before investing.**

**RISK CONSIDERATIONS**

**Derivatives Risk.** Derivatives, such as futures and options, are subject to the risk that changes in the value of a derivative may not correlate perfectly with the underlying asset, rate or index. Derivatives also expose the Fund to the credit risk of the derivative counterparty. Derivative contracts may expire worthless and the use of derivatives may result in losses to the Fund. **Industry Concentration Risk.** Because the Fund normally invests at least 80% of the value of its assets in healthcare companies, the Fund's performance largely depends on the overall condition of the healthcare industry and the Fund is susceptible to economic, political and regulatory risks or other occurrences associated with the healthcare industry. **Leverage Risk.** Leverage may increase the risk of loss, cause fluctuations in the market value of the Fund's portfolio to have disproportionately large effects or cause the NAV of the Fund generally to decline faster than it would otherwise. Micro, Small and Mid-Cap **Securities Risk.** Investments in securities of companies with micro, small or medium capitalizations involve certain risks that may differ from, or be greater than, those for larger companies, such as higher volatility, lower trading volume, fewer business lines and lack of public information. **Non-U.S. Securities Risk.** Investments in securities of non-U.S. issuers involve certain risks not involved in domestic investments (for example, expropriation or political or economic instability). **Portfolio Turnover Risk.** High portfolio turnover will increase the Fund's transaction costs and may result in increased realization of net short-term capital gains, higher taxable distributions and lower after-tax performance. **Short Sales Risk.** The risk of short sales theoretically involves unlimited loss potential since the market price of securities sold short may continuously increase. **Hedging Risk.** Hedging is a strategy for reducing exposure to investment risk. An investor can hedge the risk of one investment by taking an offsetting position in another investment. The values of the offsetting investments should be inversely correlated. There is no assurance that hedging strategies will be successful. **Merger Arbitrage and Event-Driven Risk** is the risk that the Adviser's evaluation of the outcome of a proposed event, whether it be a merger, reorganization, regulatory issue or other event, will prove incorrect and that the Fund's return on the investment will be negative. Even if the Adviser's judgment regarding the likelihood of a specific outcome proves correct, the expected event may be delayed or completed on terms other than those originally proposed, which may cause the Fund to lose money. The Fund's expected gain on an individual arbitrage investment is normally considerably smaller than the possible loss should the transaction be unexpectedly terminated. **Special Purpose Acquisition Companies Risk** is the risk that the Fund may invest in stock of, warrants to purchase stock of, and other interests in special purpose acquisition companies or similar special purpose entities that pool funds to seek potential acquisition opportunities (collectively, "SPACs"). Because SPACs and similar entities have no operating history or ongoing business other than seeking acquisitions, the value of their securities is particularly dependent on the ability of the entity's management to identify and complete a profitable acquisition.

**Index Definitions:** Index returns assume reinvestment of all dividends and distributions, if any. Indices are unmanaged, have no fees or costs and are not available for investment. The performance of the indices may be materially different from the Fund's performance. In addition, the Fund's holdings may differ significantly from the securities that comprise the indices. The indices have not been selected to represent an appropriate benchmark to compare a fund's performance, but rather are disclosed to allow for comparison of the Fund's performance to that of certain well-known and widely recognized indices. It is not possible to invest directly in an index. **S&P 500 Total Return Index** is an index of a basket of 500 stocks designed to provide a broad snapshot of the overall U.S. equity market. The total return index series reflects both ordinary and special dividends. Investors cannot invest directly into an index. **S&P Merger Arbitrage Index.** The S&P Merger Arbitrage Index seeks to provide a risk arbitrage strategy that exploits commonly observed price changes associated with a global selection of publicly announced mergers, acquisitions and other corporate reorganizations. Historically, the index has exhibited market neutral characteristics, lower volatility compared to the S&P 500, and a low correlation to S&P 500 returns. Index returns are for illustrative purposes only and do not represent actual Fund performance. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results. **Bloomberg US Aggregate Index.** The Bloomberg US Agg Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency). The advisor to the Fund is NexPoint Asset Management L.P., (Advisor). The Advisor and NexPoint Securities, Inc. are affiliated.

Prepared by NexPoint Securities, Inc., Member FINRA/SIPC